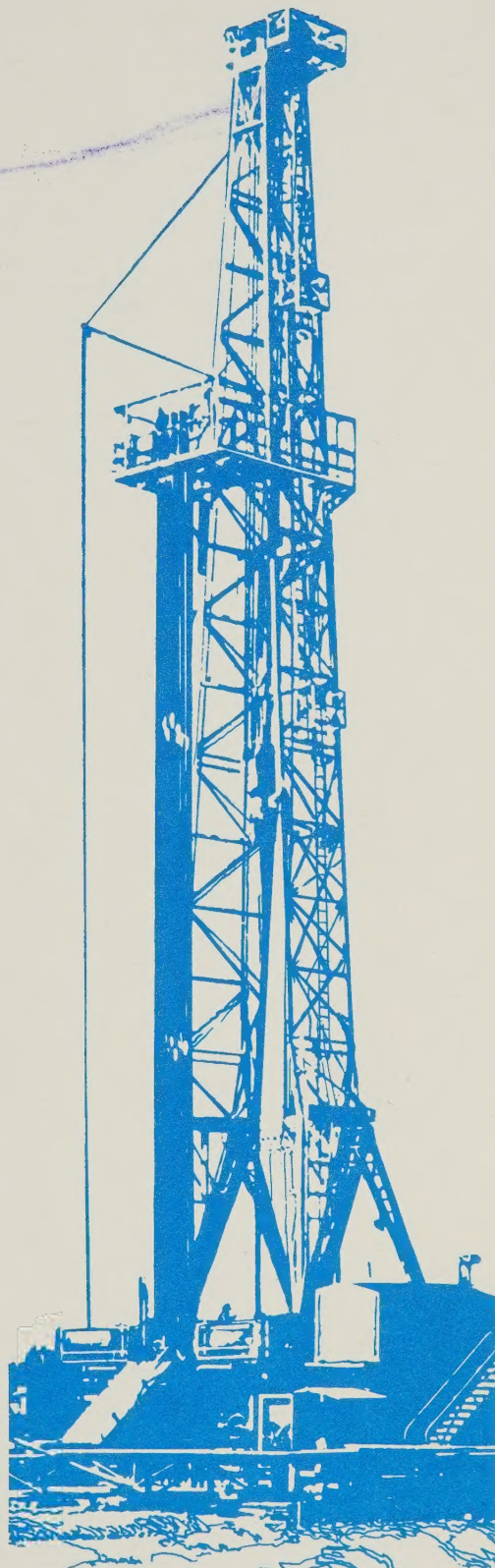



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1965 ANNUAL REPORT



**ALMINEX**  
**LIMITED**



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MARCH  
28, 1966

# ALMINEX LIMITED

*Head Office*  
1502-320 BAY STREET, TORONTO

*Calgary Office*  
609-320 SEVENTH AVENUE S.W.

## *Seventh Annual Report December 31 1965*

### DIRECTORS

F. R. BURTON . . . . .	TORONTO
H. J. FRASER . . . . .	TORONTO
W. F. JAMES . . . . .	TORONTO
P. N. PITCHER . . . . .	TORONTO
J. B. WEBB . . . . .	CALGARY

### OFFICERS

F. R. BURTON . . . . .	PRESIDENT
W. F. JAMES . . . . .	VICE-PRESIDENT
J. B. WEBB . . . . .	VICE-PRESIDENT AND GENERAL MANAGER
D. G. C. MENZEL . . . . .	SECRETARY
P. H. POWERS . . . . .	TREASURER AND ASSISTANT SECRETARY

TRANSFER AGENT AND REGISTRAR  
CROWN TRUST COMPANY



AUDITORS  
THORNE, MULHOLLAND, HOWSON & McPHERSON



# ALMINEX LIMITED

## Five Year Summary

	<u>1965</u>	<u>1964</u>	<u>1963</u>	<u>1962</u>	<u>1961</u>
<b>FINANCIAL</b>					
Gross Production . . . . .	\$ 4,292,375	\$ 3,699,807	\$ 3,559,884	\$ 3,058,661	\$ 2,452,770
Net Production Income (after royalty and operating costs) .	3,237,582	2,763,933	2,688,062	2,269,259	1,841,500
Administrative and General Expense . . . . .	135,936	131,809	149,407	150,281	155,090
Interest Expense . . . . .	135,691	156,303	187,872	190,478	160,745
*Exploration Expense . . . . .	623,341	641,956	758,424	977,334	1,015,276
Depletion, Depreciation and Write-offs . . . . .	973,734	970,495	1,277,129	1,144,428	1,149,888
Cash Earnings after all cash expenses . . . . .	2,342,614	1,833,865	1,592,359	951,166	510,389
Net Profit (Loss) . . . . .	1,385,445	863,370	315,230	(193,262)	(639,499)
Loans Outstanding (Bank and Other) . . . . .	2,390,000	2,528,000	3,128,000	3,248,000	3,212,000
<b>OPERATING</b>					
Net Daily Production:					
Oil and Condensate (barrels) .	3,025	2,603	2,537	2,312	2,061
Natural Gas (thousands of cubic feet) .	14,523	12,704	11,336	8,880	7,243
Reserves — Net Proven:					
Crude Oil (barrels) . . . . .	41,670,000	37,036,000	26,424,000	22,100,000	20,720,000
Natural gas Liquids (barrels) .	3,470,000	2,700,000	2,790,000	3,740,000	4,070,000
Natural Gas (billions of cubic feet) . .	148.06	138.08	140.90	168.79	170.18
Sulphur (long tons) . . . . .	272,000	181,000	—	—	—
**Net Oil Wells . . . . .	52.05	47.68	45.20	40.86	37.70
**Net Gas Wells . . . . .	10.96	10.66	10.23	9.27	8.59
Net Acreage . . . . .	716,527	679,122	338,224	341,446	363,101

\*Includes exploration drilling, dry hole costs, geological, geophysical and unproven property expense.

\*\*Does not include royalty interests.



# ALMINEX LIMITED

## Report of the Directors

### TO THE SHAREHOLDERS:

Your Directors are pleased to present their Report for the year ended December 31, 1965, together with the Report of the Vice-President and General Manager, and the Financial Statements with the Auditors' report thereon.

### THE COMPANY

Proven reserves of crude oil and natural gas liquids, as of December 31, 1965, again increased very substantially and, after allowing for the year's production, were 45,140,000 barrels, an increase of 5,404,000 barrels or 13.6% during the past year. This change is largely attributable to the higher ultimate recovery factors now applied to the calculation of reserves at the Swan Hills and Virginia Hills fields because of favourable secondary recovery results and the conclusions of a recent special reservoir study. A small pool discovered at Chisholm (Mitsue) and extensions in several fields also added to proven reserves. Proven gas reserves increased substantially by about 10 billion cubic feet (Bcf). You will note that proven sulphur reserves of 272,000 long tons are recorded for the first time. There are indications that sulphur production and sales will shortly provide a sizeable revenue to your Company.

During 1965, your Company's crude oil production again recorded growth with important increases in several fields, the largest occurring at Swan Hills. As a result, gross revenue from the sale of oil, gas and condensate was \$4,292,375 and net production income after deduction of royalties and operating expenses was \$3,237,582, an increase of 17% over 1964. After deducting administrative and general expense of \$135,936, interest charges of \$135,691, and exploration costs of \$623,341, net cash income was \$2,342,614 compared to \$1,833,865 in 1964, an increase of 28%. After providing \$973,734 for depletion, depreciation and other write-offs, Alminex had a net income from operations of \$1,368,880 compared to \$863,370 in 1964, an increase of 58%. Dividends of \$911,899, or 12¢ per share, were paid to the shareholders.

Capital expenditures totalled \$1,174,646 of which \$463,081 was on development, \$182,742

on plant facilities, \$301,631 on production equipment and \$227,192 on land acquisitions. Outstanding loans at December 31, 1965, amounted to \$2,390,000 compared to \$2,528,000 at the end of 1964.

Oil and condensate produced and sold in 1965 totalled 1,103,985 barrels, a 16% increase over 1964. The daily average was 3025 barrels compared to 2603 barrels in the previous year. Natural gas sales again showed a sharp increase to 5.30 Bcf, an average of 14.5 million cubic feet (MMcf) per day, representing a gain of 14% over 1964.

The 1965 exploration program was conducted on much the same scale as in 1964. Exploratory drilling yielded three small oil discoveries and four gas discoveries. There was an increase in seismic investigations, particularly in northern Alberta and the North Sea area where large acreage holdings have been acquired.

Development drilling at Swan Hills-Inverness area proceeded at a slower pace, and only a few possible locations remain to be drilled in 1966. The Inverness Unit was placed under water flood during the year and satisfactory results are being obtained. Development of the Mitsue leases was completed during 1965. The expansion of the Harmattan Area plant for extraction of propane and butane from the gas now being cycled (the so-called "deep cut") was completed in February, 1966. Similar plans are being considered for the Carstairs-Crossfield plant in order to increase recovery of liquified petroleum gases. Alminex owns interests in two small gas processing plants at South Eltkon and Braeburn, which were placed on stream during September and March, 1965, respectively. Construction is in progress at the Harmattan Leduc plant where sulphurous gas from this unitized field will be processed commencing about July 1, 1966. The initial through-put of 42 MMcf/day will yield 810 long tons of sulphur and 15 MMcf/day of saleable gas. Alminex owns a 3.75% interest in the unit and varying interests in adjoining lands having productive potential.

Exploratory activities during 1966 will be approximately of the same order as in the past year. This winter, seismic mapping and/or exploratory drilling are in progress in three areas in northern Alberta and in the Chisholm-Akuinu reservations. Two or more wells will be drilled on a large block in southwestern Saskatchewan. North Sea investi-



gations will be limited to a relatively small seismic program, but plans are being made to drill a well in 1967.

Your Directors again wish to record their appreciation of the capable and loyal service rendered to your Company by all employees during 1965.

## THE INDUSTRY

The oil and gas industry in western Canada again registered substantial growth in both oil and gas production. The average daily production of crude oil and natural gas liquids in 1965 was 923,400 barrels, an increase of 8.3% over 1964, equalling the previous year's gain. It is notable that oil and condensate increased by 6.9%, whereas the rapidly expanding liquified petroleum gas production (propane and butane) showed a 43.2% increase. In 1966, it has been estimated that total fluids production will increase by 4.8%. Exports to the United States of oil and condensate averaged 298,500 barrels per day, an increase of 7.4% over 1964. The independent producers in the U.S. have taken strong objection to the increased growth rate of Canadian imports during the past two years and their government has recently stated that the increase during 1966 would be restricted to 5% of the 1965 total.

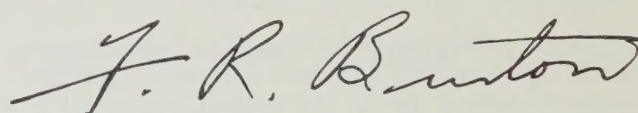
Natural gas sales again showed strong growth, averaging 2600 MMcf/day, an increase of 10% over 1964. The domestic market absorbed 1510 MMcf daily, an increase of 11%, and the U.S. exports totalled 1,100 MMcf/day, an increase of 2.5% compared to 1964. It has been predicted that the over-all growth in 1966 will be 10%, with the domestic sales representing the larger share of the increase.

Sales of sulphur recovered from western Canada's gas processing plants totalled 1,780,000 long tons in 1965, an increase of 14% over the previous year and since production was 1,700,000 long tons, stockpiles were further reduced. About 30% of the sales were to Canadian consumers, 35% to the United States and 35% to overseas markets.

Canadian oil consumption in 1965 increased to 1,112,300 barrels per day as compared with 1,028,600 barrels in 1964, a gain of 8%. The total was made up of 577,800 bbls./day of Canadian crude oil and condensate, 400,000 bbls./day of imported crude and 134,500 bbls./day of imported refined products. The volume of crude oil imports was about the same as in 1964, but imported prod-

ucts increased by 49%, with a considerable portion of the increase occurring in Ontario west of the Ottawa valley. There are indications that the National Oil Policy is not being diligently pursued and unless this trend is reversed, foreign imports will continue to gain at the expense of Canadian interests. At present, imports of crude oil and products exceed our exports to the U.S. by over 200,000 bbls./day. The importance of this deficit of over \$200,000,000 per year to our balance of payments problem is obvious but even more important is the loss of Canadian production with resulting decreased employment and income to Canadians and tax revenue to Canadian governments. The Alberta oil industry is producing at less than 50% of capacity and the current growth of productive capacity will give rise to further restrictions on production resulting in decreased revenue to many producers, including your Company. Vigorous efforts should be made to increase the use of Canadian crude in Canada and in U.S. export markets with the minimum objective of balancing imports of foreign crude and products with Canadian exports. Only the Canadian government has the strength to make attainment of such an objective possible. Mention was made in last year's report that, due to changes in prorationing in Alberta, it was expected that there would be a substantial gain in income for your Company by May 1, 1969. This forecast still appears reasonable but in the meantime, because of the market situation, income may fail to grow and may even decrease. This is particularly disconcerting in view of the marked success your Company has enjoyed in increasing its oil reserves and productive capacity.

On behalf of the Directors,



President.

Toronto, Ontario  
March 15, 1966



# Report of the Vice-President and General Manager

TO THE PRESIDENT AND  
BOARD OF DIRECTORS:

It is a pleasure to submit the following report on the operation of Alminex Limited for the year ended December 31, 1965.

## PRODUCTION

The Company's crude oil plus condensate production for 1965, after royalty, averaged 3,025 barrels per day, an increase of 16% over 1964. Crude oil totalled 942,394 barrels and condensate 161,591 barrels, thus total fluids for the year exceeded one million barrels for the first time. Most of the increase in crude oil production occurred at Swan Hills, where the gain was 28% over the previous year, and at the newly developed Mitsue field. Lesser increases were recorded at Virginia Hills, Freeman, Browning (Saskatchewan) and Dunwich (Ontario). A marked decrease in production was recorded at Crossfield Cardium. The increase in condensate production was due to greater gas sales at Carstairs and improved efficiency at the Harmattan-Elkton and Harmattan East gas cycling operations.

Production of natural gas, after royalty, was 5301 MMcf compared to 4650 MMcf in 1964, a gain of 14%. The considerable increase at Carstairs, coupled with added sales at Pendor and the new production at Retlaw, Braeburn and South Elkton contributed to the improvement. A decrease occurred at Bindloss and production problems at Milton caused severe curtailment there.

Comparative figures for oil, condensate and gas production during 1964 and 1965, by fields, are given in the tables at the end of this report.

## EXPLORATORY DRILLING

The exploration program resulted in the drilling of 23 wells, of which three were oil discoveries, four gas discoveries and sixteen dry holes. Six of these exploratory wells were drilled at no cost to Alminex on Company lands farmed out to others.

As of December 31, one additional well in northern Alberta was still in progress. The three oil discoveries were made in the following areas:— Chisholm, Alberta, immediately southeast of the Mitsue oil field, Midale, Saskatchewan, just south west of the Midale oil field; and Dunwich Township, Ontario. The four gas discoveries occurred at Superb, Saskatchewan, and Chisholm, Tieland and Medicine River, Alberta.

The oil and gas discoveries are summarized as follows:—

### Chisholm Area

Alminex owns a 25% interest in P. & N.G. Reservation No. 47, containing 93,960 acres located along the favourable Gilwood sand trend southeast of the Mitsue field. The discovery well, Home Alminex KCL Chisholm 4-15-69-3 W5M, proved to be a good Gilwood sand oil producer. Subsequent development drilling has indicated that the pool may be small. A step-out well, Home Alminex Chisholm 10-14-69-3 W5M, located 1½ miles east of the oil discovery on a lease block (Alminex interest 12½%) found a commercial gas flow in an upper Gilwood sand lens.

### Midale Area

Alminex farmed out the north half of Section 14-5-12 W2M, near the southwest margin of the Midale oil field in southeastern Saskatchewan. A well drilled by the farmee, Candel et al Midale S. 13-14-5-12 W2M, discovered oil in the Midale beds of the Mississippian and has subsequently proved to be a substantial water-free flowing oil well. Further development is planned. Alminex holds a 50% interest in the north half of Section 14 and 100% interest in the south half and other lands farther south and southwest.

### Dunwich Township, Ontario (Willey Oil Field)

The Company participated in a small oil discovery on a pooled block of 1,100 acres of leases,



the Alminex interest being 5.46%. The well, I.O.E. Bluewater Dunwich 5-22-II, found oil in the Cambrian sand at 3,550 feet in depth. Four additional oil producers have since been drilled on the pooled acreage. Alminex holds a 15% interest in the 3,000 acres of adjoining leases in this area.

### **Superb Area, Saskatchewan**

A potentially important gas discovery was made by the Company near Superb in western Saskatchewan, where Alminex owns a 100% interest in 2,880 acres of leases and a P. & N.G. reservation of 8,800 acres. The well, Alminex Superb 4-13-33-25 W3M, encountered a good Banff sand (Mississippian) which on test rated an absolute open flow of 36 million cubic feet per day. An offset well, Alminex Superb 10-14-33-25 W3M, drilled three-quarters of a mile northwest of the discovery, proved structurally low and the sand contained water only. Further drilling is planned for next spring.

### **Tieland Area, Alberta**

Tieland is situated south of Chisholm in the southeast part of P. & N.G. Reservation No. 47, referred to above. The discovery well, Home KCL Alminex Tieland 12-14-67-2 W5M, found a small commercial gas flow in the basal Cretaceous sand. The well is presently capped and further drilling will await market developments. The Company's interest is 25%.

### **Medicine River Area, Alberta**

Alminex owns a 12½% interest in a 5,120-acre lease block near the Medicine River oil field. The discovery, H.B. Home et al Medicine River 10-20-39-4 W5M, found a thin gas sand in the Glauconitic zone of the basal Cretaceous. The well was capped pending marketing arrangements.

### **Other Exploratory Interests Northern Alberta:**

In the Meander River area, 75 miles northeast of the new Rainbow Lake oil field, Alminex owns a 50% interest in three P. & N.G. reservations total-

ling 220,000 acres, and a farm-in of four reservations totalling 320,000 acres. Some seismic surveying was done last winter and additional seismic work is being carried on this winter. One location has been selected for drilling in March, 1966. Alminex also owns a 33⅓% interest in a P. & N.G. reservation of 35,000 acres in the south Bistcho Lake area, 50 miles north of Rainbow. A seismic survey of the block is in progress. In both areas, those Middle Devonian carbonate formations which have yielded several discoveries at Rainbow Lake are known to be present and offer considerable attraction.

### **Southwest Saskatchewan:**

The Company owns a 16⅔% interest in a block of three P. & N.G. permits totalling 286,000 acres, in the Bestville area, west of Fosterton oil field. Seismic and structure test hole drilling have been conducted and two wells will be drilled during March, 1966, to test the Jurassic and basal Cretaceous sands.

### **North Sea Project: (Alminex interest: 25%)**

During the spring and summer of 1965, marine seismic surveys were carried out on the two licences acquired by Alminex and associates in 1964, which cover 748,000 acres. Encouraging results were obtained and a well will probably be drilled during 1967. An additional small licence was obtained by the group late in 1965, covering 19,000 acres located along the Yorkshire coast.

## **DEVELOPMENT**

Alminex participated in the completion and placing on production of 26 oil wells and one gas well during 1965. In addition, one indicated oil well was being completed, another was still drilling, and two possible producers were suspended for further testing, at the year-end. Three development wells were abandoned as dry holes. These results are summarized as follows:—

### **Mitsue-Chisholm**

Six successful oil producers were completed early in 1965 on the eight-section lease block in



Tp. 71, R. 4 W5M, and one well was drilled and completed on the Saulteaux lease in Tp. 70, R. 3 W5M. The Company's interest in these wells is 12½%. Farther south, following the discovery of Gilwood production at Home Alminex KCL Chisholm 4-15-69-3 W5M in the spring of 1965, an off-set well, Home Alminex KCL Chisholm 10-10-69-3 W5M, located three-quarters of a mile to the southeast, found the Gilwood sand almost completely pinched out and the well was abandoned. Two more attempts to extend the pool were drilled in December, 1965. The first, Home Alminex KCL Mitsue 10-15-69-3 W5M, located three-quarters of a mile northeast of the discovery, found a good oil sand and the well is a first-class producer. The second, Home Alminex KCL Mitsue 2-16-69,3 W5M, located one-half mile west of the discovery, found a thin, non-permeable sand section and was abandoned. The pool appears to be very small, although one or two drillable locations may remain. Alminex's interest in these lands and wells in Tp. 69, R. 3 W5M is 25%.

#### **Swan Hills-Inverness**

Five oil wells were completed during 1965, all in the Inverness (North Swan Hills) area, four of which have subsequently been included in the Inverness Unit. At the year-end two additional wells were in progress, one undergoing completion and the other still drilling. As of December 31, 1965, the Swan Hills Unit No. 1 (Alminex interest 4.63%) contained 271 oil wells, and the Inverness Unit (Alminex interest 7.01%) contained 90 oil wells. Both units are undergoing pressure maintenance by water injection with evidence of beneficial results.

The Company's net production at Swan Hills-Inverness in 1965 was 491,657 barrels, an increase of 28% over 1964. This area last year provided about 52% of Alminex's production and holds 68% of its reserves of crude oil.

#### **Freeman (Alminex interest: 8.33%)**

Three oil producers were completed in this field, two good wells extending the field southeastward and the third well, of smaller capacity, is located at the northwest end of the narrow productive belt. There seems a reasonable hope of further

extension to the southeast on leases held by Alminex and associates.

#### **Browning, Saskatchewan**

Further development was undertaken in Section 27-6-5 W2M, where two producers were completed (Alminex interest 12½%). A farm-in was obtained on the adjoining N½ of Sec. 28 to the west, and the SE¼ of Sec. 32 was purchased. Three oil wells were completed on these lands (Alminex interest 37½%). Three of the five wells produce considerable salt water cuts, as do the previously drilled oil wells in Sec. 27. It is planned to convert the discovery well in L.s.d. 1 – Sec. 27 to a water disposal well immediately.

#### **Dunwich, Ontario (Willey Field)**

Following the encouraging oil discovery in the spring of 1965, described above, a development drilling program was undertaken on the pooled block, in which Alminex holds a 5.46% interest. Four successful oil wells were completed and one additional well stands suspended due to its very high salt water cut. All of the oil wells produce salt water in variable amounts, which is being disposed of in a porous zone at shallow depth. Two or three more suggested offset locations have been proposed for drilling next summer. Alminex also participated in the drilling of one well immediately east of the pooled acreage, which yielded a small commercial gas flow accompanied by salt water. Testing has been suspended. The Company's interest is 15%.

#### **Other Development Drilling**

A deep well was drilled at the south end of the Westward Ho oil field in an attempt to extend the Harmattan Leduc (Devonian) sulphurous gas field. In that respect, the well was a failure but it was successfully completed as an oil producer in the Elkton (Mississippian). Alminex owns an 8.44% interest. A small commercial gas well was drilled, at no cost to Alminex, on a farm-out of leases in the Provost area, the Company retaining an over-riding royalty. At Superb, in western Saskatchewan, one dry hole was drilled three-quarters of a mile northwest of the gas discovery, previously described.



## COMMENTS ON OTHER UNITIZED PROPERTIES

### Harmattan Leduc Sulphur Recovery Plant (Alminex interest: 3.75%)

The pooled block of 3,840 acres in this sulphurous gas field was converted, late in 1965, into a unit. Construction of a plant, at a cost of \$7.5 to \$8.0 million, to process 42 million cubic feet daily of raw gas commenced in October, 1965 and is expected to be completed by July 1, 1966. Initial output will be 810 long tons per day of sulphur and 15 million cubic feet of saleable gas.

Alminex holds varying interests up to 22.5% in several leases adjoining the unitized block to the west which hold productive potential. A Leduc test will be drilled on or near this acreage shortly.

### Carstairs Elkton Gas Unit (Alminex interest: 10.15%)

The Company's share of residue gas sales to Trans-Canada Pipe Lines Limited was 3,121 MMcf, an increase of 9.3%, and condensate production was 103,317 barrels, an 8% increase over the previous year. The new facilities for cycling 10 MMcf/day of raw gas went on stream in July, and this additional processing has contributed markedly to condensate recovery.

Plans are being made to enlarge the Carstairs-Crossfield gas processing plant to 305 MMcf/day raw gas capacity, and to install equipment for recovery of liquid propane and butane. Construction will probably commence this spring if final agreement of the operators and Conservation Board approval are forthcoming. The Alminex interest in this plant is 5.145%.

### Harmattan Area Gas Plant

Almost one-third of Alminex's condensate production is recovered from the cycling of gas produced, processed, and re-injected into the reservoirs at Harmattan-Elkton (Alminex 2.84%) and Harmattan East (Alminex 39%) units. The Company's share of the condensate produced in 1965 was 53,029 barrels, an increase of 17.5% over 1964. Early in 1965, construction commenced on additional plant facilities which will allow increased recovery of condensate, 70% of the propane and 95% of the butane from the cycled gas. This new segment went into operation late in February, 1966, and will add to the profitability of the plant.

## OTHER SMALL GAS INTERESTS

### South Elkton Unit (Alminex interest: 11.74%)

Plant construction was completed during August, and gas deliveries to Trans-Canada Pipe Lines commenced in September, at the contract rate of 3.36 MMcf/day. Condensate recovery is approximately 100 bbls./day.

### Braeburn (Alminex interest: 7.33%)

This plant went on stream in March, with a capacity of 15 MMcf/day. Throughput has averaged somewhat less than this amount.

### Milton

Production difficulties due to water incursion caused a severe curtailment of production early in 1965. Late in the year, the property was farmed out to others for further development, the Alminex group retaining an over-riding royalty.

## RESERVES

The Company's proven and probable reserves of crude oil, natural gas liquids, natural gas and sulphur, estimated as of December 31, 1965, are shown in the following table compared with the estimated reserves as of December 31, 1964:—

	Dec. 31, 1965	Dec. 31, 1964
<b>CRUDE OIL RESERVES</b> (Millions of Barrels)		
Proven Reserves	41.67	37.04
Probable Reserves	7.14	6.75
<b>NATURAL GAS LIQUIDS</b> (Millions of Barrels)		
Proven Reserves	3.47	2.70
Probable Reserves	.18	.15
<b>NATURAL GAS</b> (Billions of Cubic Feet)		
Proven Reserves	148.06	138.08
Probable Reserves	10.00	5.55
<b>SULPHUR</b> (Thousands of Long Tons)		
Proven Reserves	272	181
Probable Reserves	215	—

The increase of 12.5% in proven crude oil reserves is chiefly the result of revised estimates at Swan Hills, Virginia Hills and Harmattan-Elkton.



In the first two fields, higher ultimate recovery factors have now been adopted, justified by the favourable results being obtained through pressure maintenance (water flooding). At Harmattan-Elkton, revision of some reservoir factors, principally a decrease in water saturation, has given rise to a considerable increase in reserves. The small pool discovered at Chisholm added new reserves and minor increments were recorded at Freeman, Browning, Midale South and Willey, Ontario.

The considerable increase in natural gas liquids was due chiefly to recalculation of reserves in the light of increased knowledge of the reservoirs

concerned and the expected recovery of "deep cut" LPG liquids at Harmattan and Carstairs.

The increase of 10 Bcf (7.3%) in proven gas reserves was the result of three developments, namely, the new reserves added at Harmattan Leduc Unit, the up-grading of reserves at Carstairs in the contract re-negotiation with Trans-Canada Pipe Lines, and the increase in estimated solution gas reserves at Swan Hills.

The Company's sulphur reserves are listed for the first time. Proven and probable reserves totaling 487,000 long tons are contained principally in the Harmattan Leduc sulphurous gas field.

## LAND

The Company's land holdings are summarized in the following table under reservation and lease categories, showing gross and net acres owned by Alminex Limited and its wholly-owned subsidiary, Alminex (U.K.) Limited, as of December 31, 1965:

	RESERVATIONS		LEASES		TOTALS	
	Gross	Net	Gross	Net	Gross	Net
Alberta	799,103	238,065	1,170,861	162,117	1,969,964	400,182
Saskatchewan and Manitoba	294,880	56,475	24,019	9,674	318,899	66,149
British Columbia	—	—	127,908	12,197	127,908	12,197
Yukon and N.W.T.	1,376,287	35,998	—	—	1,376,287	35,998
Ontario	—	—	69,408	10,212	69,408	10,212
North Sea (Alminex U.K.)	767,158	191,789	—	—	767,158	191,789
	<u>3,237,428</u>	<u>522,237</u>	<u>1,392,196</u>	<u>194,200</u>	<u>4,629,624</u>	<u>716,527</u>

During the year, certain lands were surrendered and several new acquisitions made, resulting in a minor increase overall in gross and net holdings. The principal additions were reservations acquired in southwestern Saskatchewan, northern Alberta and the North Sea. A 50% interest in a farm-in of 320,640 acres of reservation lands in Meander River area, northern Alberta, is not included in the above tabulation since the interest has yet to be earned by performance of seismic mapping and drilling of three wells.

## CONCLUSION

The 1965 exploration program yielded some encouragement in the oil discovery at Chisholm and the promising gas discovery at Superb. Extensive land holdings in northern Alberta are undergoing seismic mapping and at least one well will be drilled there during March, 1966. Oil reserves have again displayed a large increase, mainly through upward revision of secondary recovery estimates at Swan Hills and Virginia Hills. A new asset has been added in the Alminex interest in sulphur production which will commence about July 1, 1966, at the Harmattan Leduc gas plant now under construction.

The Company's 1966 production of oil and gas will experience some curtailment through the change next mid-summer, as required by regulation, from economic to operating allowable at Swan Hills and Virginia Hills, and an expected decreased demand by Trans-Canada Pipe Lines at Carstairs. However, looking farther ahead, the forecast for increased production and earnings is very encouraging.

The management takes pleasure in extending sincere thanks to all members of the staff for their willing co-operation and skilful efforts during 1965.

Respectfully submitted,

Vice-President and General Manager.

March 12, 1966



# Producing Interests

## UNITIZED FIELDS

### Oil: Alberta

	UNIT INTEREST - %	
	1965	1964
Swan Hills Unit #1	4.63	4.58
Inverness Unit #1	7.01	7.01
Virginia Hills Unit #1	3.57	3.59
Harmattan-Elkton Unit #1	8.81	8.81
Crossfield Cardium Unit #1	7.80	7.80
North Pembina Cardium Unit #1	.42	.34
Pembina Cardium Unit #3	1.88	1.88
Westward Ho Unit #1	7.62	7.62
Harmattan East Unit #1	1.17	1.17
Sundre Unit #1	.21	.25

### Gas: Alberta

Carstairs Elkton Unit	10.15	10.15
Bindloss Viking Sand Gas Unit	7.98	7.98
Retlaw Unit #1	14.87	15.72
Calgary Elkton Unit #1	.40	.40
Calgary Crossfield Unit #1	.02	.02
Atlee-Buffalo-Jenner Viking Sand Gas Unit	7.38	7.38
South Elkton Unit #1	11.74	11.74
Crossfield Turner Valley Unit #1	.09	.09
Erskine Gas Unit #1	3.28	—
Sylvan Lake Gas Unit #1	.06	—
Harmattan Leduc Unit #1	3.75	—

### Saskatchewan

Coleville Smiley Viking Sand Gas Unit	.28	.28
Hoosier Viking Sand Gas Unit	.25	.25

## NON-UNITIZED FIELDS

### Oil Wells: Alberta

	1965		1964	
	GROSS	NET	GROSS	NET
Mitsue	16	2.25	7	.88
Erskine	21	2.63	21	2.63
Freeman	8	.67	5	.42
Manyberries	2	.50	2	.50
Pembina	21	1.88	21	1.88
Stettler	1	.13	1	.13
Inverness	1	.13	2	.25
Westward Ho	1	.08	—	—
Swan Hills	—	—	2	.25

### Saskatchewan

Browning	7	1.75	2	.38
Midale South	1	.40	—	—
Clarilaw	3	.63	3	.63

### Ontario

Wiley	5	.27	—	—
Dunwich	1	.15	1	.15
	<u>88</u>	<u>11.47</u>	<u>67</u>	<u>8.10</u>

### Gas Wells: Alberta

Pendor	4	.60	4	.60
Braeburn (Saddle Hills)	2	.55	2	.55
	<u>6</u>	<u>1.15</u>	<u>6</u>	<u>1.15</u>
TOTALS:	<u>94</u>	<u>12.62</u>	<u>73</u>	<u>9.25</u>



## NET OIL AND NATURAL GAS LIQUIDS PRODUCTION BY FIELDS

(Barrels — after royalty)

### OIL

#### Alberta

	1965	1964
Swan Hills-Inverness	491,657	385,062
Virginia Hills Unit	116,793	97,680
Harmattan-Elkton Unit	108,533	109,664
Pembina	45,213	52,348
Crossfield Cardium Unit	43,912	62,299
Mitsue	30,202	2,791
Erskine	24,693	25,645
Westward Ho Unit	20,813	26,813
Harmattan East Unit	20,684	24,083
Freeman	10,748	7,404
Manyberries	2,876	4,915
Others	3,789	3,884

#### Saskatchewan

19,013 6,350

#### Ontario

3,468 465

TOTAL 942,394 809,403

Daily Average 2,582 2,211

### NATURAL GAS LIQUIDS

#### Alberta

Carstairs Unit	103,317	95,698
Harmattan-Elkton Unit	45,377	40,264
Harmattan East Unit	7,652	4,879
Calgary Units	2,274	1,910
Others	2,971	627
TOTAL	161,591	143,378
Daily Average	443	392

### OIL + NATURAL GAS LIQUIDS:

Daily Average 3,025 2,603

## NET GAS PRODUCTION BY FIELDS

(MMcf — after royalty)

### Alberta

	1965	1964
Carstairs Unit	3,121.000	2,854.979
Bindloss Unit	929.176	1,011.165
Pendor	324.815	217.497
Retlaw Unit	209.599	24.408
Braeburn	207.867	—
Swan Hills-Inverness	131.771	96.360
Calgary Units	111.637	91.108
Atlee-Buffalo-Jenner Unit	93.585	96.309
South Elkton Unit	39.852	—
Crossfield Turner Valley Unit	15.774	16.548
Others	49.034	19.811

### Saskatchewan

Milton	36.591	195.655
Hoosier and Coleville Units	30.087	25.604

TOTAL 5,300.788 4,649.516

Daily Average 14.523 12.704

## 1965 DRILLING RECORD

### EXPLORATORY WELLS COMPLETED (Gross):

	DRY HOLES	OIL DISC.	GAS DISC.
Alberta: Southern	2	—	—
Central	9	1	2
Northern	4	—	—
Saskatchewan	—	1	1
Ontario	1	1	—
	16	3	4

### DEVELOPMENT WELLS COMPLETED (Gross):

	DRY HOLES	OIL WELLS	GAS WELLS
Alberta			
Freeman	—	3	—
Inverness	—	5	—
Mitsue	2	8	—
Westward Ho	—	1	—
Provost	—	—	1
Saskatchewan			
Browning	—	5	—
Superb	1	—	—
Ontario			
Willey	—	4	—
	3	26	1
TOTALS:	19	29	5



# ALMINEX

*Incorporated under*

## BALANCE SHEET,

*(With comparative*

### ASSETS

CURRENT ASSETS:	1965	1964
Cash . . . . .	\$ 74,832	\$ 117,845
Accounts receivable . . . . .	165,588	200,102
Marketable securities, at cost (market value 1964, \$18,500) . . .	—	2,625
Inventory, at lower of cost or market . . . . .	5,631	5,801
Prepaid expenses . . . . .	3,545	2,107
	<u>249,596</u>	<u>328,480</u>
REFUNDABLE DEPOSITS . . . . .	<u>74,178</u>	<u>39,319</u>
INVESTMENTS, AT COST:		
Subsidiary company (note 1):		
Shares . . . . .	302	302
Advances . . . . .	168,670	78,549
	<u>168,972</u>	<u>78,851</u>
Other . . . . .	2,446	2,446
	<u>171,418</u>	<u>81,297</u>
PROPERTY, PLANT AND EQUIPMENT (note 2):		
Land, leases and development costs thereon:		
Proven properties . . . . .	33,163,552	32,279,281
Less Accumulated depletion .. . . .	4,453,000	3,794,000
	<u>28,710,552</u>	<u>28,485,281</u>
Unproven properties . . . . .	4,998,089	5,234,220
	<u>33,708,641</u>	<u>33,719,501</u>
Plant and equipment . . . . .	3,418,003	2,933,630
Less Accumulated depreciation . . . . .	1,665,896	1,393,295
	<u>1,752,107</u>	<u>1,540,335</u>
	<u>35,460,748</u>	<u>35,259,836</u>
	<u>\$35,955,940</u>	<u>\$35,708,932</u>

The accompanying notes are an integral part of this statement.

Approved on behalf of the Board.

H. J. FRASER, *Director*

W. F. JAMES, *Director*

# ALMINEX LIMITED

the laws of Canada

DECEMBER 31, 1965

(figures for 1964)

## LIABILITIES

CURRENT LIABILITIES:	1965	1964
Bank loans due within one year, secured (note 3) . . . . .	956,000	1,034,000
Accounts payable and accrued expenses . . . . .	66,945	155,483
	<u>1,022,945</u>	<u>1,189,483</u>
LONG-TERM LIABILITIES:		
Bank loans, secured (note 3) . . . . .	2,390,000	2,528,000
Less Principal instalments due within one year included under current liabilities . . . . .	956,000	1,034,000
	<u>1,434,000</u>	<u>1,494,000</u>
Total liabilities . . . . .	<u>2,456,945</u>	<u>2,683,483</u>

## SHAREHOLDERS' EQUITY

CAPITAL STOCK (note 4):		
Authorized, 10,000,000 shares without par value		
Issued, 7,599,161 shares . . . . .	34,847,107	34,847,107
CONTRIBUTED SURPLUS . . . . .	70,091	70,091
	<u>34,917,198</u>	<u>34,917,198</u>
DEFICIT . . . . .	1,418,203	1,891,749
	<u>33,498,995</u>	<u>33,025,449</u>
	<u>\$35,955,940</u>	<u>\$35,708,932</u>

## AUDITORS' REPORT

TO THE SHAREHOLDERS OF  
ALMINEX LIMITED:

We have examined the balance sheet of Alminex Limited as at December 31, 1965 and the statements of income and deficit for the year ended on that date. Our examination included a general review of the accounting procedures and such tests of accounting records and other supporting evidence as we considered necessary in the circumstances.

In our opinion the accompanying balance sheet and related statements of income and deficit present fairly the financial position of the company as at December 31, 1965 and the results of its operations for the year ended on that date, in accordance with generally accepted accounting principles applied on a basis consistent with that of the preceding year.

Our examination also included the accompanying statement of source and disposition of funds which, in our opinion, when considered in relation to the aforementioned statements, presents fairly the changes in working capital position of the company for the year ended December 31, 1965.

Toronto, Canada,  
March 4, 1966.

THORNE, MULHOLLAND, HOWSON & McPHERSON  
Chartered Accountants



# ALMINEX LIMITED

## STATEMENT OF INCOME

Year ended December 31, 1965 (With comparative figures for 1964)

	1965	1964
Gross production . . . . .	\$4,292,375	\$3,699,807
DEDUCT:		
Royalties . . . . .	656,792	562,587
Operating expenses . . . . .	398,001	373,287
	<u>1,054,793</u>	<u>935,874</u>
Net production income . . . . .	3,237,582	2,763,933
Administrative and general expenses (note 5) . . . . .	135,936	131,809
Interest . . . . .	135,691	156,303
	<u>271,627</u>	<u>288,112</u>
Profit before the following . . . . .	2,965,955	2,475,821
Exploratory drilling and dry hole costs . . . . .	283,305	428,868
Geophysical and geological expense . . . . .	97,502	23,940
Unproven property expense . . . . .	242,534	189,148
	<u>623,341</u>	<u>641,956</u>
Profit before the following write-offs . . . . .	2,342,614	1,833,865
Property surrendered (note 2) . . . . .	42,133	66,206
Depreciation . . . . .	272,601	273,289
Depletion . . . . .	659,000	631,000
	<u>973,734</u>	<u>970,495</u>
Income from operations . . . . .	1,368,880	863,370
Gain on disposal of marketable securities . . . . .	16,565	—
NET INCOME FOR YEAR . . . . .	<u>\$1,385,445</u>	<u>\$ 863,370</u>

## STATEMENT OF DEFICIT

Year ended December 31, 1965 (With comparative figures for 1964)

	1965	1964
Deficit at beginning of year . . . . .	1,891,749	1,995,203
Net income for year . . . . .	1,385,445	863,370
	<u>506,304</u>	<u>1,131,833</u>
Dividends paid . . . . .	911,899	759,916
DEFICIT AT END OF YEAR . . . . .	<u>\$1,418,203</u>	<u>\$1,891,749</u>



# ALMINEX LIMITED

## STATEMENT OF SOURCE AND DISPOSITION OF FUNDS

Year ended December 31, 1965

### SOURCE OF FUNDS:

#### From operations:

Net income for year . . . . .	1,385,445	
Add Depreciation, depletion and property surrendered, not requiring an outlay of funds . . . . .	<u>973,734</u>	
	2,359,179	
Less Dividends paid . . . . .	<u>911,899</u>	1,447,280

### DISPOSITION OF FUNDS:

Acquisition of lands and leases (net) . . . . .	227,192	
Development . . . . .	463,081	
Addition to plant and equipment (net) . . . . .	484,373	
Advances to subsidiary company . . . . .	90,121	
Increase in refundable deposits . . . . .	34,859	
Reduction of long-term liabilities . . . . .	<u>60,000</u>	<u>1,359,626</u>

IMPROVEMENT IN WORKING CAPITAL POSITION . . . . .		87,654
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### WORKING CAPITAL DEFICIENCY AT BEGINNING OF YEAR:

Current liabilities . . . . .	1,189,483	
Current assets . . . . .	<u>328,480</u>	<u>861,003</u>

### WORKING CAPITAL DEFICIENCY AT END OF YEAR:

Current liabilities . . . . .	1,022,945	
Current assets . . . . .	<u>249,596</u>	
		<u>\$ 773,349</u>



# ALMINEX LIMITED

## Notes to Financial Statement

*Year ended December 31, 1965*

### 1. **Subsidiary company:**

The company in 1964 acquired a wholly owned subsidiary, Alminex (U.K.) Limited, for the purpose of exploring for oil under a specified area of the North Sea, under license from the British Government and in conjunction with other companies.

The subsidiary company is in the exploration stage and has no profit or loss up to December 31, 1965.

### 2. **Property, plant and equipment:**

The company's accounting practice is to capitalize property costs and development expenditures on proven properties and to deplete such costs on a unit of production method based on the total of estimated proven and probable reserves of oil and natural gas.

Property carrying charges, cost of dry holes drilled and exploration expenses are charged against income as incurred. Unproven property costs are charged to income when the properties are surrendered.

Depreciation is provided on the diminishing balance method at maximum rates permissible under the Income Tax Act.

Certain property, plant and equipment was acquired in consideration of the issue of shares of the company in 1959 at values placed upon them by the Board of Directors of the company. Other acquisitions, for cash, are valued at cost.

### 3. **Bank loans:**

Credit arrangements with two Canadian chartered banks provide for loans of undetermined amounts, which must be repaid in 60 equal consecutive monthly instalments.

These loans are secured by registered general assignment of accounts receivable and general assignments under Section 82 of The Bank Act covering the company's net interest in certain oil properties.

### 4. **Capital stock:**

As at December 31, 1965 there were outstanding options to two officers, who are also directors of the company, to purchase a total of 45,000 shares at \$3.40 per share on or before December 10, 1969.

### 5. **Administrative and general expenses:**

Remuneration of directors of \$55,963 (\$56,250 in 1964) is included in administrative and general expenses.

### 6. **Taxes on income:**

Under the provisions of the Income Tax Act exploration and development expenditures including costs of certain oil and gas rights are deductible from income for the year; any excess of such expenditures may be carried forward to apply against future income. Because of the availability of exploration and development expenditures carried forward from prior years, no taxes on income are payable in respect of the 1965 year. Land, lease and development costs available to be claimed for tax purposes in future years are approximately \$2,346,000 and allowances for plant and equipment \$1,651,000.





